Taiwan Semiconductor Manufacturing (2330 TT)

Daiwa Capital Markets Hong Kong Limited

Target price: **TWD3,200.00** (from TWD3,000.00)

Share price (15 Oct): **TWD2,440.00** | Up/downside: **+31.1%**

5 4 3 2 **1**

Buy (unchanged)

Lack of passion despite strong AI?

- Another "beat-n-raise" in quarterly prints but likely …
- … short of catalysts on limited positive surprise this time
- Reaffirming our Buy (1) call with a higher 12M TP of TWD3,200

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What's new: TSMC *continued* delivering "beat-n-raise" prints for its quarterly results and guidance on 15 October. While we raise our forecasts to factor in its better topline and pricing trajectory yet muted margin expectation on an incremental basis, we see likely lack of near-term passion from investors on limited positive surprises from its results call this time. That said, we believe AI demand remains strong and sustainable to support our Buy (1) call on the stock, though patience may be necessary for investors amid the current jittery environment.

What's the impact: **Results intact, guidance mixed.** Despite 3Q26 topline of USD46.7bn topping guidance (USD44.6-45.8bn) at TSMC, its 3Q26 EPS came in at TWD29.4, only marginally beating our/Bloomberg consensus estimates on lower opex and higher non-operating gains from long-term investments more than offsetting lower gross margin associated with higher depreciation costs on dilutive N2 ramp (table on p.2). Guidance calls for higher topline for 4Q26 with midpoint of the range 6% above our previous forecast, thanks to continued AI strength as customers continue to increase demand. Yet margins at the operating level looked muted without further operating leverage being expected by the street, due to the margin-dilutive N2 ramp. We raise our 2026-28E forecasts by 3-10% to factor in the better topline trajectory, plus our view of better pricing power.

Lack of near-term passion? Apart from the upbeat topline but muted margin guidance on an incremental basis, we left the results call with limited positive surprises this time which may not drive any passion for investors in the near term to catalyse the stock. That said, fundamentals remain strong since AI demand continues to mushroom from accelerators to CPU and other companion chips, as language models transform from generative to agentic for AI assistance. TSMC implied upside risk to its long-term AI accelerator revenue CAGR of mid-to-high-50% over 2024-29 and, as flagged in our *Asian Foundry* report, we saw upside risk to TSMC's pricing power for 2027, given the still meaningful supply constraint where management reiterated its strong conviction in this multi-year AI megatrend and active capacity build aimed to narrow the supply/demand gap.

What we recommend: We raise our 12M TP for TSMC to TWD3,200 (previous: TWD3,000), based on our finetuned ROE-adjusted PBR target of 7.5x one-year forward BVPS forecast (previous: 7.7x). We reiterate our Buy (1) call with key downside risks of "silicon inflation" and geopolitical overhangs leading to global inflation and AI capex cut.

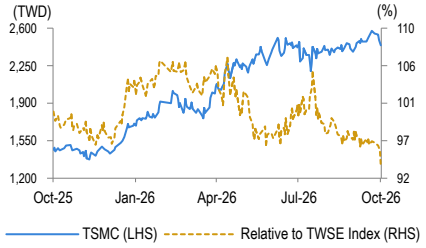
How we differ: Our 2028E EPS is 11% below the Bloomberg consensus likely on our view calling for a soft-landing in the chip cycle.

Forecast revisions (%)

Year to 31 Dec	26E	27E	28E
Revenue change	2.7	10.1	11.0
Net profit change	2.7	8.9	10.1
Core EPS (FD) change	2.7	8.9	10.1

Source: Daiwa forecasts

Share price performance



12-month range	1,375.00-2,585.00
Market cap (USDbn)	1,970.76
3m avg daily turnover (USDm)	1,922.98
Shares outstanding (m)	25,932
Major shareholder	National Development Fund (6.4%)

Financial summary (TWD)

Year to 31 Dec	26E	27E	28E
Revenue (m)	5,628,740	7,592,903	8,553,486
Operating profit (m)	3,319,867	4,412,664	4,890,486
Net profit (m)	2,918,891	3,803,865	4,275,578
Core EPS (fully-diluted)	112.559	146.686	164.877
EPS change (%)	69.9	30.3	12.4
Daiwa vs Cons. EPS (%)	4.4	1.2	(10.9)
PER (x)	21.7	16.6	14.8
Dividend yield (%)	1.1	1.1	1.2
DPS	26.0	28.0	30.0
PBR (x)	8.0	5.7	4.3
EV/EBITDA (x)	14.6	10.6	8.9
ROE (%)	43.7	40.0	33.3

Source: FactSet, Daiwa forecasts

See important disclosures, including any required research certifications, beginning on page 6

Flash

TSMC: quarterly P&L estimates and forecasts

TWDbn	1Q26	2Q26	3Q26	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2025	2026E	2027E	2028E
Total revenue	1,134	1,270	1,494	1,730	1,697	1,808	1,976	2,112	3,809	5,629	7,593	8,553
Total revenue (USDbn)	**35.9**	**40.2**	**46.7**	**54.1**	**53.0**	**56.5**	**61.7**	**66.0**	**122.5**	**176.9**	**237.3**	**267.3**
COGS	-383	-410	-502	-569	-577	-608	-662	-707	-1,528	-1,863	-2,554	-2,962
Gross profit	751	860	992	1,161	1,120	1,200	1,314	1,406	2,281	3,765	5,039	5,592
Opex	-92	-94	-116	-144	-141	-150	-162	-173	-345	-446	-626	-701
Operating profit	659	767	876	1,018	979	1,050	1,152	1,233	1,936	3,320	4,413	4,890
EBITDA	824	965	1,097	1,248	1,229	1,310	1,437	1,541	2,624	4,135	5,516	6,283
Pretax profit	688	862	911	1,057	1,018	1,094	1,196	1,278	2,042	3,518	4,586	5,154
Income taxes	-115	-156	-148	-180	-173	-186	-203	-217	-326	-598	-780	-876
Net profit	572	707	763	877	845	907	992	1,060	1,718	2,919	3,804	4,276
FD O/S (bn)	26	26	26	26	26	26	26	26	26	26	26	26
FD EPS (TWD)	**22.08**	**27.25**	**29.43**	**33.81**	**32.57**	**34.98**	**38.26**	**40.88**	**66.24**	**112.56**	**146.69**	**164.88**
Margin												
Gross	66%	68%	66%	67%	66%	66%	66%	67%	60%	67%	66%	65%
Operating	58%	60%	59%	59%	58%	58%	58%	58%	51%	59%	58%	57%
EBITDA	73%	76%	73%	72%	72%	72%	73%	73%	69%	73%	73%	73%
Net	50%	56%	51%	51%	50%	50%	50%	50%	45%	52%	50%	50%
Growth (QoQ)												
Total revenue	8%	12%	18%	16%	-2%	7%	9%	7%				
Gross profit	15%	15%	15%	17%	-4%	7%	10%	7%				
Operating profit	17%	16%	14%	16%	-4%	7%	10%	7%				
EBITDA	13%	17%	14%	14%	-2%	7%	10%	7%				
Net profit	13%	23%	8%	15%	-4%	7%	9%	7%				
FD EPS	13%	23%	8%	15%	-4%	7%	9%	7%				
Growth (YoY)												
Total revenue	35%	36%	51%	65%	50%	42%	32%	22%	32%	48%	35%	13%
Gross profit	52%	57%	69%	78%	49%	39%	32%	21%	40%	65%	34%	11%
Operating profit	62%	65%	75%	80%	49%	37%	31%	21%	46%	71%	33%	11%
EBITDA	42%	48%	65%	72%	49%	36%	31%	23%	32%	58%	33%	14%
Net profit	58%	77%	69%	73%	48%	28%	30%	21%	46%	70%	30%	12%
FD EPS	**58%**	**77%**	**69%**	**73%**	**48%**	**28%**	**30%**	**21%**	**46%**	**70%**	**30%**	**12%**

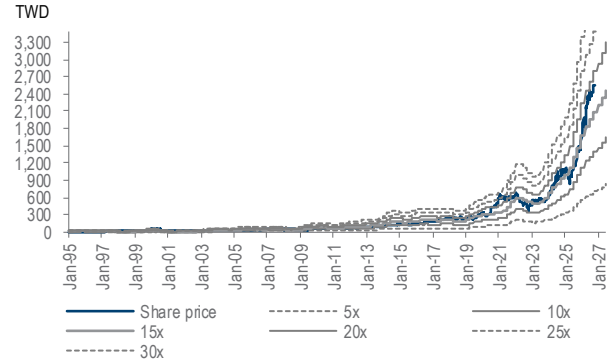
Source: Company, Daiwa estimates and forecasts

TSMC: 3Q26 results and 4Q26 guidance check

	3Q26			Growth			4Q26E
TWDm	Actual	Daiwa	Variance	QoQ	YoY	Guidance	Daiwa (previous)
Revenue	1,494,243	1,462,926	2%	18%	51%	USD52.3-54.3bn (TWD1663-1727bn)	USD50.4bn (+8% QoQ)
Gross profit	992,379	985,471	1%	15%	69%	65-67%	67%
Operating profit	876,445	855,271	2%	14%	75%	56.5-58.5%	59%
EBITDA	1,096,649	1,065,271	3%	14%	65%		
Pretax profit	911,039	888,480	3%	6%	73%	Capex remained at USD60-64bn	USD62bn
Net profit	763,064	738,327	3%	8%	69%		
Adjusted EPS (TWD)	29.43	28.47	3%	8%	69%		
Margin							
Gross	66.4%	67.4%	-0.9%				
Operating	58.7%	58.5%	0.2%				
EBITDA	73.4%	72.8%	0.6%				
Net	51.1%	50.5%	0.6%				
Operation							
Shipment ('000, 12" equ.wafers)	4,476	4,691	-5%				
Utilisation*	88%	92%	-4%				
<=3nm sales contribution	40%	38%	2%				

Source: Company, Daiwa estimates and forecasts
*Note: * Calculated as wafer shipment divided by capacity estimated by Daiwa*

TSMC: 4-quarter forward PER band



Source: Company, TEJ, Daiwa forecasts

TSMC: PBR trend



Source: Company, TEJ, Daiwa forecasts

Financial summary

Key assumptions

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Capacity utilization (%)	102	98	73	76	80	88	96	96
Blended ASP (USD)	1,642	1,933	2,101	2,546	2,930	3,513	4,034	4,231
Wafer shipment (8" equ., '000)	31,902	34,320	27,005	29,051	33,802	39,914	45,974	49,377

Profit and loss (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Wafer Foundry Revenue	1,463,157	1,979,286	1,770,430	2,378,253	3,079,347	4,462,673	5,934,673	6,685,473
Sub & Other Revenue	124,258	284,605	391,305	516,054	729,707	1,166,066	1,658,230	1,868,014
Other Revenue	0	0	0	0	0	0	0	0
Total Revenue	**1,587,415**	**2,263,891**	**2,161,736**	**2,894,308**	**3,809,054**	**5,628,740**	**7,592,903**	**8,553,486**
Other income	0	0	0	0	0	0	0	0
COGS	(767,878)	(915,536)	(986,625)	(1,269,954)	(1,527,760)	(1,863,311)	(2,554,116)	(2,961,614)
SG&A	(44,822)	(63,813)	(71,275)	(98,119)	(98,775)	(111,879)	(170,549)	(188,177)
Other op.expenses	(124,735)	(163,262)	(182,370)	(204,182)	(246,427)	(333,683)	(455,574)	(513,209)
Operating profit	**649,981**	**1,121,279**	**921,466**	**1,322,053**	**1,936,092**	**3,319,867**	**4,412,664**	**4,890,486**
Net-interest inc./(exp.)	488	10,672	48,295	76,718	93,369	121,900	164,500	254,920
Assoc/forex/extraord./others	12,657	12,239	9,411	7,068	12,202	76,507	8,569	8,998
Pre-tax profit	**663,126**	**1,144,190**	**979,171**	**1,405,839**	**2,041,663**	**3,518,273**	**4,585,733**	**5,154,404**
Tax	(66,053)	(127,290)	(141,404)	(233,407)	(326,266)	(598,036)	(779,575)	(876,249)
Min. int./pref. div./others	(533)	(370)	730	836	2,486	(1,346)	(2,293)	(2,577)
Net profit (reported)	**596,540**	**1,016,530**	**838,498**	**1,173,268**	**1,717,883**	**2,918,891**	**3,803,865**	**4,275,578**
Net profit (adjusted)	**596,540**	**1,016,530**	**838,498**	**1,173,268**	**1,717,883**	**2,918,891**	**3,803,865**	**4,275,578**
EPS (reported)(TWD)	**23.005**	**39.204**	**32.334**	**45.252**	**66.255**	**112.559**	**146.686**	**164.877**
EPS (adjusted)(TWD)	**23.005**	**39.204**	**32.334**	**45.252**	**66.255**	**112.559**	**146.686**	**164.877**
EPS (adjusted fully-diluted)(TWD)	**23.006**	**39.203**	**32.334**	**45.242**	**66.243**	**112.559**	**146.686**	**164.877**
DPS (TWD)	**10.250**	**11.001**	**11.249**	**14.003**	**18.003**	**26.000**	**28.000**	**30.000**
EBIT	**649,981**	**1,121,279**	**921,466**	**1,322,053**	**1,936,092**	**3,319,867**	**4,412,664**	**4,890,486**
EBITDA	**1,072,375**	**1,558,533**	**1,453,657**	**1,984,848**	**2,624,188**	**4,134,706**	**5,515,783**	**6,282,669**

Cash flow (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit before tax	663,126	1,144,190	979,171	1,405,839	2,041,663	3,518,273	4,585,733	5,154,404
Depreciation and amortisation	422,395	437,254	532,191	662,795	688,096	814,839	1,103,119	1,392,183
Tax paid	(66,053)	(127,290)	(141,404)	(233,407)	(326,266)	(598,036)	(779,575)	(876,249)
Change in working capital	(100,384)	(53,286)	324	(90,088)	160	(379,000)	(50,000)	(180,000)
Other operational CF items	193,077	209,731	(128,316)	81,038	(128,677)	(8,283)	(9,577)	(10,225)
Cash flow from operations	**1,112,161**	**1,610,599**	**1,241,967**	**1,826,177**	**2,274,976**	**3,347,793**	**4,849,700**	**5,480,113**
Capex	(839,196)	(1,082,672)	(949,817)	(956,008)	(1,272,411)	(1,963,581)	(1,960,000)	(2,161,600)
Net (acquisitions)/disposals	4,676	(128,712)	(55,781)	(57,882)	(37,079)	738	0	0
Other investing CF items	(1,847)	20,456	99,477	149,047	165,097	0	0	0
Cash flow from investing	**(836,366)**	**(1,190,928)**	**(906,121)**	**(864,843)**	**(1,144,393)**	**(1,962,842)**	**(1,960,000)**	**(2,161,600)**
Change in debt	(1,090)	(1,730)	(17,407)	21,601	(46,362)	(136,926)	(128,434)	(109,169)
Net share issues/(repurchases)	0	0	0	0	0	0	0	0
Dividends paid	(265,786)	(285,234)	(291,722)	(363,055)	(466,779)	(674,232)	(726,096)	(777,960)
Other financing CF items	(3,622)	59,198	10,284	8,054	(64,022)	0	0	0
Cash flow from financing	**(270,499)**	**(227,766)**	**(298,844)**	**(333,399)**	**(577,163)**	**(811,158)**	**(854,530)**	**(887,129)**
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	**5,296**	**191,905**	**37,002**	**627,935**	**553,420**	**573,793**	**2,035,170**	**2,431,384**
Free cash flow	272,965	527,927	292,151	870,169	1,002,565	1,384,213	2,889,700	3,318,513

Source: FactSet, Daiwa forecasts

Financial summary continued …

Balance sheet (TWDm)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Cash & short-term investment	1,188,442	1,561,483	1,687,644	2,422,009	3,068,595	3,641,650	5,676,820	8,108,203
Inventory	193,102	221,149	250,997	287,869	288,109	428,109	498,109	553,109
Accounts receivable	207,637	231,409	201,938	272,088	281,791	541,791	561,791	691,791
Other current assets	17,892	38,856	53,453	106,387	178,635	180,000	30,000	30,000
Total current assets	**1,607,073**	**2,052,897**	**2,194,033**	**3,088,352**	**3,817,131**	**4,791,550**	**6,766,721**	**9,383,104**
Fixed assets	1,975,119	2,693,837	3,064,475	3,234,980	3,691,841	5,186,780	6,399,753	7,386,825
Goodwill & intangibles	113,927	149,117	144,421	219,565	251,682	179,500	189,200	194,000
Other non-current assets	29,385	68,928	129,442	149,040	172,370	172,370	172,370	172,370
Total assets	**3,725,503**	**4,964,779**	**5,532,371**	**6,691,938**	**7,933,024**	**10,330,201**	**13,528,044**	**17,136,300**
Short-term debt	127,171	19,314	9,293	59,858	136,926	128,434	109,169	92,794
Accounts payable	48,911	56,522	57,293	74,227	84,330	105,330	145,330	150,330
Other current liabilities	563,421	868,391	846,997	1,130,441	1,236,763	1,221,945	1,377,860	1,553,110
Total current liabilities	**739,503**	**944,227**	**913,583**	**1,264,525**	**1,458,019**	**1,455,710**	**1,632,359**	**1,796,234**
Long-term debt	610,071	834,336	913,900	926,605	856,228	727,793	618,624	525,831
Other non-current liabilities	205,196	225,727	221,625	177,233	157,982	160,000	165,000	170,000
Total liabilities	**1,554,770**	**2,004,290**	**2,049,108**	**2,368,362**	**2,472,229**	**2,343,503**	**2,415,984**	**2,492,064**
Share capital	259,304	259,304	259,321	259,327	259,325	259,325	259,325	259,325
Reserves/R.E./others	1,908,983	2,686,349	3,199,593	4,029,218	5,160,271	7,687,519	10,815,174	14,349,927
Shareholders' equity	**2,168,287**	**2,945,653**	**3,458,914**	**4,288,545**	**5,419,596**	**7,946,845**	**11,074,500**	**14,609,252**
Minority interests	2,447	14,836	24,349	35,031	41,199	39,853	37,560	34,983
Total equity & liabilities	**3,725,503**	**4,964,779**	**5,532,371**	**6,691,938**	**7,933,024**	**10,330,201**	**13,528,044**	**17,136,300**
EV	62,825,326	62,581,083	62,533,978	61,873,564	61,239,838	60,528,511	58,362,614	55,819,484
Net debt/(cash)	**(451,200)**	**(707,833)**	**(764,451)**	**(1,435,546)**	**(2,075,442)**	**(2,785,422)**	**(4,949,027)**	**(7,489,579)**
BVPS (TWD)	**83.621**	**113.600**	**133.384**	**165.370**	**208.985**	**306.449**	**427.059**	**563.368**

Key ratios (%)

Year to 31 Dec	2021	2022	2023	2024	2025	2026E	2027E	2028E
Sales (YoY)	18.5	42.6	(4.5)	33.9	31.6	47.8	34.9	12.7
EBITDA (YoY)	19.4	45.3	(6.7)	36.5	32.2	57.6	33.4	13.9
Operating profit (YoY)	14.7	72.5	(17.8)	43.5	46.4	71.5	32.9	10.8
Net profit (YoY)	15.2	70.4	(17.5)	39.9	46.4	69.9	30.3	12.4
Core EPS (fully-diluted) (YoY)	15.2	70.4	(17.5)	39.9	46.4	69.9	30.3	12.4
Gross-profit margin	51.6	59.6	54.4	56.1	59.9	66.9	66.4	65.4
EBITDA margin	67.6	68.8	67.2	68.6	68.9	73.5	72.6	73.5
Operating-profit margin	40.9	49.5	42.6	45.7	50.8	59.0	58.1	57.2
Net profit margin	37.6	44.9	38.8	40.5	45.1	51.9	50.1	50.0
ROAE	29.7	39.8	26.2	30.3	35.4	43.7	40.0	33.3
ROAA	18.4	23.4	16.0	19.2	23.5	32.0	31.9	27.9
ROCE	25.5	33.4	22.4	27.2	32.9	43.4	42.7	36.1
ROIC	37.5	50.2	31.7	39.3	51.9	64.2	64.5	61.0
Net debt to equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Effective tax rate	10.0	11.1	14.4	16.6	16.0	17.0	17.0	17.0
Accounts receivable (days)	41.7	35.4	36.6	29.9	26.5	26.7	26.5	26.7
Current ratio (x)	2.2	2.2	2.4	2.4	2.6	3.3	4.1	5.2
Net interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net dividend payout	55.1	47.8	34.8	30.9	27.2	23.1	19.1	18.2
Free cash flow yield	0.4	0.8	0.5	1.4	1.6	2.2	4.6	5.2

Source: FactSet, Daiwa forecasts

Company profile

Incorporated in Taiwan in 1987, Taiwan Semiconductor Manufacturing Co. (TSMC) is the world's largest complementary metal oxide semiconductor (CMOS) foundry in revenue terms. TSMC offers foundry services such as wafer masking, fabrication, probing, packaging and testing, to a high variety of customers including fabless chipmakers and IDMs. Its manufacturing fabs are located in Taiwan, China, the US and Singapore.

ESG analysis

ESG risks

Risks		Management	Analyst comments
G	Executive/board quality	1	TSMC's board of directors (BoD) has 10 members, including 6 independent directors representing 60% of total directors. The background of TSMC's BoD is diversified, with members from industries, academia, and law. Also, its board members include representatives from not only Taiwan but also Europe and the US, bringing their experience in operating international businesses to the board. We believe the high percentage of independent directors and a diverse mix of expertise from the board members strengthen the functionality of its BoD, as evidenced by TSMC's leading position in the foundry market.
	Capital management	1	TSMC pays its dividend on a quarterly basis. In the past 5 years, it has managed its dividend payout well, as evidenced by its dividend in dollar terms, where it has never lowered its dividend. As the leader in advanced technology nodes, TSMC has kept expanding its capacity for advanced nodes; as such, we expect its capital intensity to increase to the level near or above 40% over 2025-26 (vs. its long-term target of mid-30%). However, we believe TSMC will at least sustain its cash dividend payout in dollar terms over 2025-26E. We see its balance between investment and dividend as appropriate.
	Related party & transaction	1	TSMC's sales to related parties and purchases from related parties remain immaterial as a percentage of total revenue and cost of goods sold in 2026. We view these levels as insignificant and therefore see limited risk to TSMC's earnings, cash flow generation, or corporate governance.
S	Supply chain management	1	As the leader in the global foundry industry, TSMC approaches supply chain management by focusing on 2 main strategies: sustainability risk management and local supply chain optimisation. It requires all its suppliers to comply with its "Code with Ethics and Business Conduct", and to follow regulations on human rights and conflict-free minerals. In 2019, 100% of its tier-1 suppliers signed the "Supplier Code of Conduct" and self-assessment questionnaire on sustainable management. Also, TSMC's raw materials purchased are 100% Democratic Republic of the Congo (DRC) conflict-free. It also requires its critical suppliers to report on the status of sustainability management in their critical upstream supply chains. Through these measures, we see TSMC reducing its supply chain risk.
E	Water & wastewater management	2	TSMC applies internal and external company resources to develop water reclaimation technology, implements water conservation measures and uses reeclaimed water in the manufacturing process. For example, on September 19, 2022, TSMC Tainan Science Park Reclaimed Water Plant started supplying reclaimed water. In 2025, TSMC aims to replace 5% of water resources with reclaimed water, and continue to cooperate with the government to complete the 2nd water reclamation plan in Anping, Tainan. In 2030, TSMC targets to replace > 60% of water resources with reclaimed water.
E	Waste & hazardous materials management	1	TSMC's waste recycling rate reached 96% in 2022 for 8 years in a row. Also, the percentage of waste sent to landfills was less than 1% for 13 years in a row in 2022. TSMC achieved reducing its outsourced unit waste disposal (kg/12" equivalent wafer mask layer) to 0.99 in 2022. Furthermore, TSMC has set a goal to reduce its outsourced unit waste disposal per wafer to no more than 0.5 in 2030.
E	GHG emissions	1	TSMC has continued its efforts to reduce greenhouse gas (GHG) emissions to drive low-carbon manufacturing. In 2022, TSMC achieved net zero emissions of direct and indirect (from purchased energy) GHG Emissions in overseas factories, and 100% use of carbon-neutral natural gas in Taiwan fabs. It has set a target to achieve Net Zero Emissions by 2050.

Note: Management score represents a company's ability to manage/benefit from certain ESG topics. The scores range from 1 to 3, with 1 being the strongest.

Update Date: 15 Oct 2026
Source: Daiwa, Company

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